

Economic Spotlight

Alberta's housing market gains strength

Alberta has emerged as a standout performer in Canada's housing market. By most indications, a slowdown in Canada's broader housing market is underway. Meanwhile, Alberta's housing sector has been heating up. Housing starts continue to trend higher, prices are accelerating, and the resale market remains firmly in seller's territory.

The underlying driver is a robust economy. Alberta's economy has grown at double the rate of the Canadian average over the past three years, and accounted for a disproportionately high share of the nation's new jobs. Job opportunities have lured migrants from other provinces, creating a need for new housing, while rising wages have kept affordability in check. Record inflows of migrants have also resulted in a tighter rental and resale housing market, pushing activity and prices higher. On the supply side, the flooding in Southern Alberta has reduced the stock of available homes, adding further tightness to the market.

Alberta housing starts climb as rest of Canada stumbles

Alberta was a notable outlier last year in Canadian home construction. The province saw housing starts jump 7.8% over 2012 levels, while total starts in the rest of Canada fell 12.5% (Chart 1). In the first quarter of 2014, Alberta starts are up 16.8% over the same time last year compared with only a 1.9% gain in all other provinces.

The divergence between Canadian and Alberta starts is in large part driven by population growth and a strong job market, with Alberta's population swelling due to migration from other countries and from other provinces (Chart 2). The

Highlights

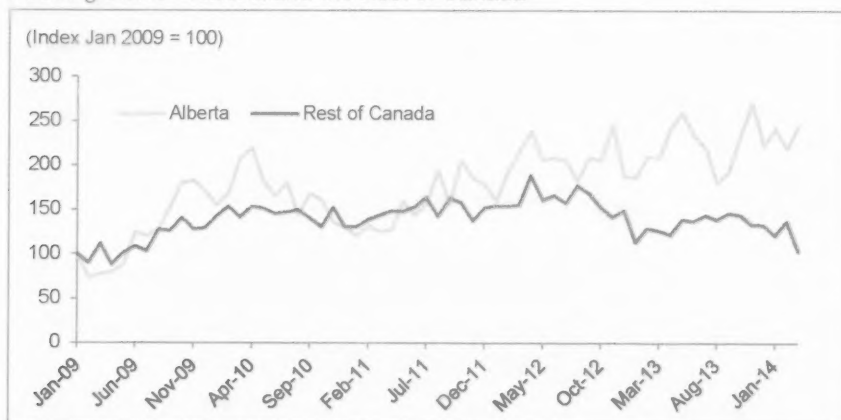
Alberta's housing market continues to build on the strong gains seen through 2012 and 2013. Strong employment and immigration have contributed towards the improvement and allowed Alberta to buck the slowing trend in the rest of Canada. Housing prices have accelerated, as supply has struggled to keep pace with demand, yet housing affordability remains favorable.

While housing starts have picked up, the unabsorbed housing stock continues to fall, adding pressure to prices. Likewise, lower rental vacancy rates are contributing to higher apartment rental prices throughout the province, with most regions seeing prices rise at an above average rate in 2013.

The recent tightening of the housing market and rising residential building permits are signs of further gains in home construction in Alberta. Housing is expected to be an important driver of Alberta's economic growth again in 2014.

Chart 1: Alberta's Housing Market Outperforms

Housing Starts - Alberta and the Rest of Canada



Source: Canada Mortgage and Housing Corporation, Last Obs. March 2014

majority of migrants to Alberta are in prime household formation age groups, and the job market in Alberta has been exceedingly strong compared with other provinces. Since January 2013, Alberta has accounted for 56.2% of all jobs created in Canada. More people in the province, with strong employment prospects and higher wages, has increased demand for housing and helped drive housing starts.

Calgary housing starts pick up

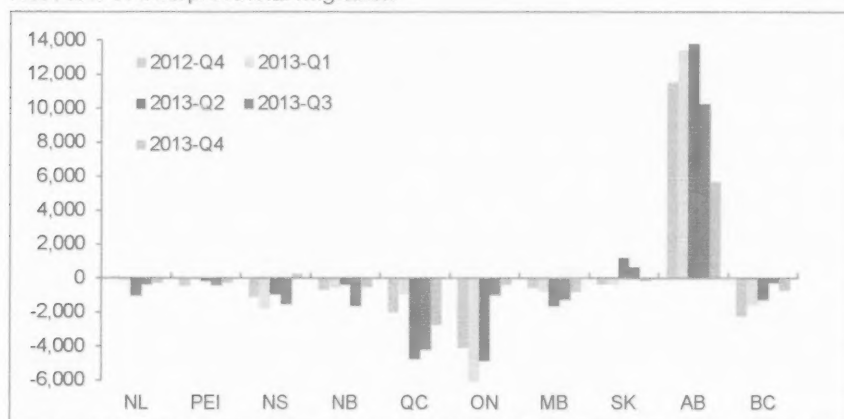
Calgary's market has been a major driver, seeing starts surge over the last eight months. The southern-Alberta floods are partially responsible, due to reconstruction efforts. In the first quarter of 2014, Calgary starts have spiked by 63.0% over the same time last year. Adding to the impressive overall number of starts is the fact that most starts are occurring in single-detached homes, which represent higher investment

than one home in a multi-unit building (apartment, row houses etc).

Investment builds with starts

Investment in housing construction has tracked the growth in housing starts relatively closely, with the average investment per unit increasing over the last 10 years. Alberta's real investment in new housing construction hit an all-time high in 2013 at \$10.0 billion (in 2007 \$), an increase of 10.4% over 2012. While single unit investment (7.1% year-over-year) rose briskly, multi-unit (+12.8%) and apartment investment (+25.4%) noted the largest gains.

Chart 2: Outperformance Driven by Migration
Net Flow of Interprovincial Migration



Source: Statistics Canada

Table 1: Rental Market Conditions Tighten
Regional Apartment Rental Vacancy Rates and Average Rental Price

	Apartment Rental Vacancy Rate			Average Rent (\$), 1 Bedroom apartment			
	2013	2012	10-year average	2013	2012	% Change	10-year avg. % Change
Calgary	1.0	1.3	2.3	1,039	957	8.6	4.6
Edmonton	1.4	1.6	3.0	934	882	5.9	4.7
Red Deer	1.9	1.2	3.5	795	734	8.3	3.9
Lethbridge	5.0	9.1	3.8	748	769	(2.7)	3.5
Medicine Hat	3.9	5.1	4.8	621	603	3.0	3.3
Grande Prairie	1.2	1.8	5.0	944	858	10.0	4.4
Wood Buffalo	5.4	5.6		1,742	1,648	5.7	6.0

Source: Canadian Mortgage and Housing Corporation

Tighter rental market pushes rents higher

Many new residents choose to rent accommodations initially, so it is little surprise that the rental market has tightened. Alberta's rental vacancy rate declined from 2012 to 2013, while the average cost of renting an apartment rose across all unit types (Table 1). One bedroom apartment prices rose the most in Grande Prairie in 2013, up 10.0%. Likewise, major centers, such as Calgary and Edmonton, saw increases of 8.6% and 5.9% respectively. The increase in rental prices has likely caused more Albertans to contemplate home ownership, adding pressure to the new and resale housing market.

Home re-sales move higher

The resale market is also heating up in Alberta due to stronger demand, with nearly 70,000 existing homes being sold in 2013, the highest level since 2007, and 9.5% above the previous year (2012). In the first quarter of 2014, sales are up 7.8% over the same time last year.

Well inside a sellers' market

Though construction and investment have both improved over the last

year, Alberta has moved into a sellers' market, suggesting that the supply of resale properties has not kept pace with demand (Chart 3). 2013 saw 0.2% fewer listings available, despite 14.8% higher sales. This is a continuation from 2012 when listings fell 2.7%.

A sales-to-new listing ratio below 40% is considered a buyers' market, while a ratio in between 40% and 60% is balanced. The ratio increased to 64.3% in 2013, pushing housing into sellers' market territory and increasing further to 66.3% in the first quarter of 2014. The tightening in the resale market is not confined to specific cities; indeed, most city centers experienced an increase in this ratio over the last three years (Chart 4).

Existing Housing prices edge up across Alberta

The average price of a listing in Alberta increased 4.9% to \$380,969 in 2013. This was the second largest provincial increase in prices, behind Manitoba, and is in-line with other increases throughout Canada, with the average price of a Canadian home increasing 5.3%. Prices have continued to accelerate through the

Chart 4: Housing Market Tightens Across the Province
Sales-to-New Listings Ratio by Major City



Source: The Canadian Real Estate Association

first quarter of 2014, up 6.7% over the same time last year.

Alberta's strong growth in resale housing prices was also seen in its two major centers. Calgary noted the largest increase, with average house prices increasing 6.0% last year, compared with Edmonton's 3.2% gain. Historically, Edmonton price movements have closely mirrored Calgary's over the last 20 years, with differences in growth rates eventually converging to the historical growth rate band.

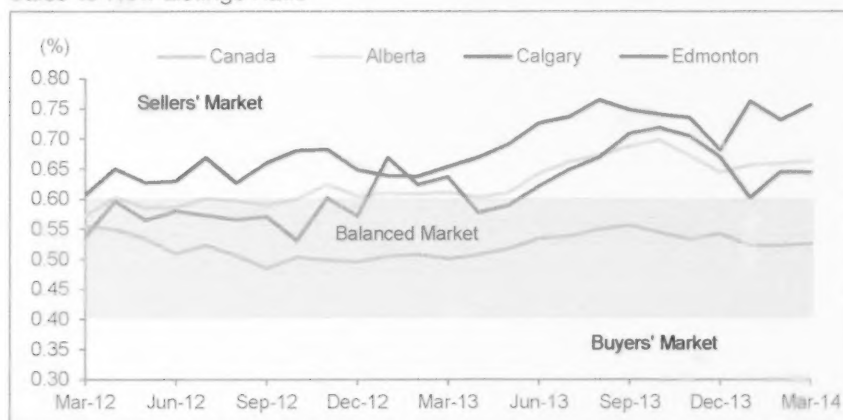
Housing remains relatively affordable

Higher demand of rental spaces and homes have caused both rents and home prices to accelerate. Builders have responded, with new home construction jumping across the province. Despite rising housing prices, affordability remains stable, with gains in income growth offsetting rising housing prices in the province. RBC's housing affordability index, which measures the share of disposable income devoted to housing costs, indicates that Alberta's housing market remains one of the most affordable in the country due to high household income. Alberta buyers continue to benefit from relatively high rates of employment and wage growth.

Falling inventory putting pressure on prices

The overhang in inventory from the 2004 to 2007 housing boom helped contain price increases until recently. Starts soared over this period, reaching an all time high of 48,962 in 2006, however demand was curbed during the recession, resulting in excess supply of housing not absorbing into the market (Chart 5). This delayed price

Chart 3: Supply Struggles to Keep Up with Demand
Sales-to-New Listings Ratio



Source: The Canadian Real Estate Association

increases and the number of starts throughout 2011 and 2012. Since the beginning of 2013, the stock of completed and unabsorbed homes has tapered off to near 6 year lows. The dwindling supply of unabsorbed new homes has also contributed to the uptick in prices.

Low growth in building costs

Despite strong residential construction, building cost pressures have remain contained (Chart 6). Apartment construction costs in Alberta rose 1.4% in 2013, well below historic norms. This partly reflects a weak global inflation environment, which has kept imported material costs down. Strong migration has also kept wage pressures contained.

Outlook for 2014

No signs of cooling

The housing market in Alberta performed exceptionally well through 2013 and is forecast to strengthen further in 2014, at a time when the national housing market is expected to slow or level off. Building permits act as a measure of construction intentions for the future, and 2013 was a high growth year for the value of permits issued in Alberta. In 2013, the total value of residential permits issued increased 17.7% provincially, while at the national level permits remained flat. Calgary noted a sharp increase throughout the last year, jumping 29.6%. Meanwhile, Edmonton saw permit values increase a solid 13.2% (Chart 7).

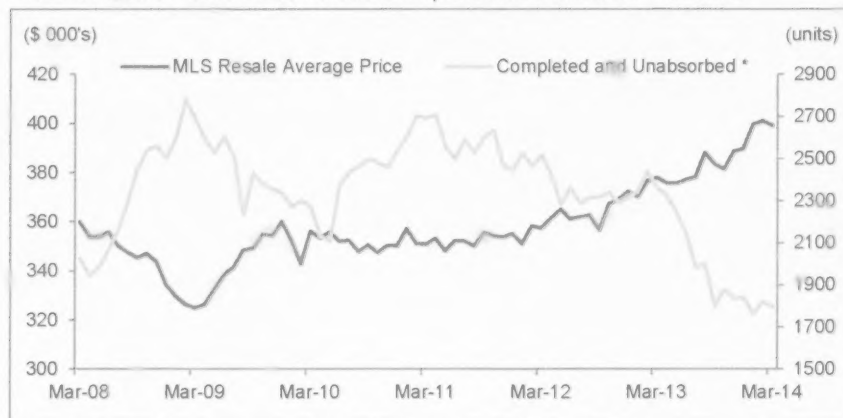
Apartment, multi-unit, and single unit permits have all recovered well after bottoming out around January 2009 during the recession. Though permit values have not increased to pre-recession highs, values are increasing steadily throughout the year, and have increased 158.9% over the last ten years. In 2013,

apartment permit values increased 44.4%, while multi and single unit permits increased 11.5% and 6.8% respectively. This trend has continued into 2014 with residential permits up 10.6% year-over-year in the first two months. This suggests that the construction industry is responding to stronger demand and higher rental and sale prices.

Residential construction forecast to stay strong

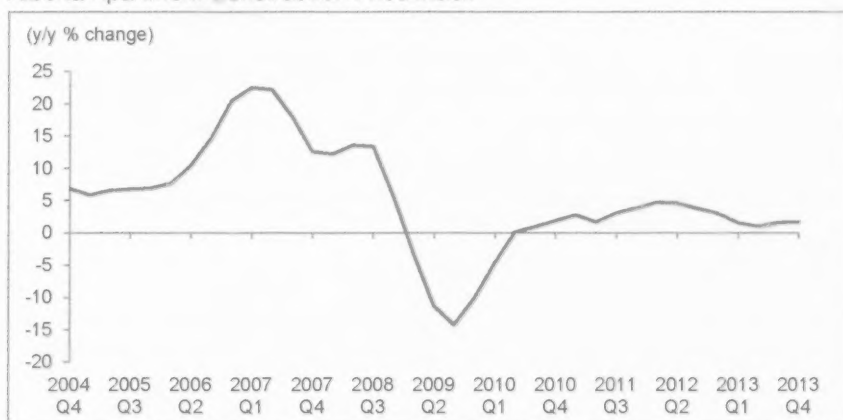
The recent tightening in the housing market is a firm signal of future strength for home construction. The tightening rental market, a sales-to-listings ratio firmly in seller's territory, and a dwindling supply of completed and unoccupied homes in Calgary and Edmonton will all help support increased construction activity throughout the near term. With this in mind, housing starts are forecast to increase further to 38,300 in 2014, a 6.4% increase over 2013, according to

Chart 5: Housing Market Tightness Feeds Through to Prices
Alberta Resale Home Price versus Completed and Unabsorbed Units



Source: Statistics Canada,
* Composite of Calgary and Edmonton

Chart 6: Construction Cost Growth Remains Low
Alberta Apartment Construction Price Index



Source: Statistics Canada, Composite of Calgary and Edmonton

Budget 2014. (Chart 8). Residential investment is also expected to expand in real terms by 5.6% in 2014, adding significantly to Alberta's economic growth.

Young migrants to continue to drive growth

Alberta's low unemployment rate and higher average wages will continue to draw in-migrants, both from within and outside Canada. These new migrants tend to be younger, working-aged adults. The transitioning of these new young migrants from rental accommodations into home ownership will be a primary driver in the housing market demand. Higher wages will also encourage continued household formation and home ownership.

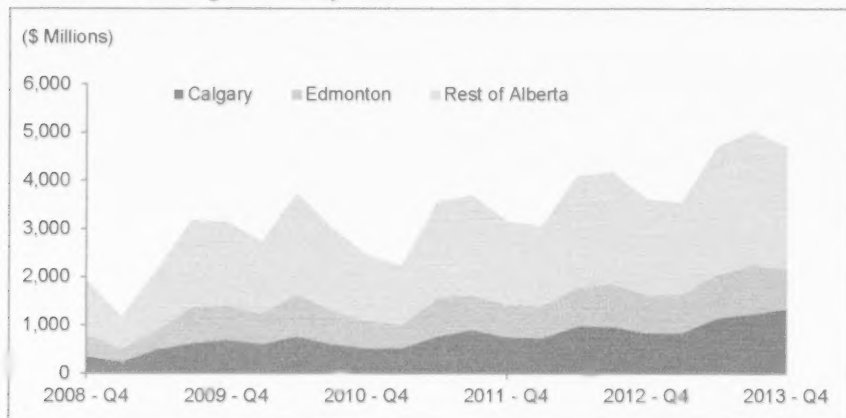
Net migration is forecast to remain high over the near term and will be an important driver of housing demand. After spiking by 3.5% in 2013, the largest increase since 1981, Alberta's population growth is forecast to ease to

a still-strong 2.9% in 2014 before gradually moving to 2.0% by 2017.

Risks to the Outlook

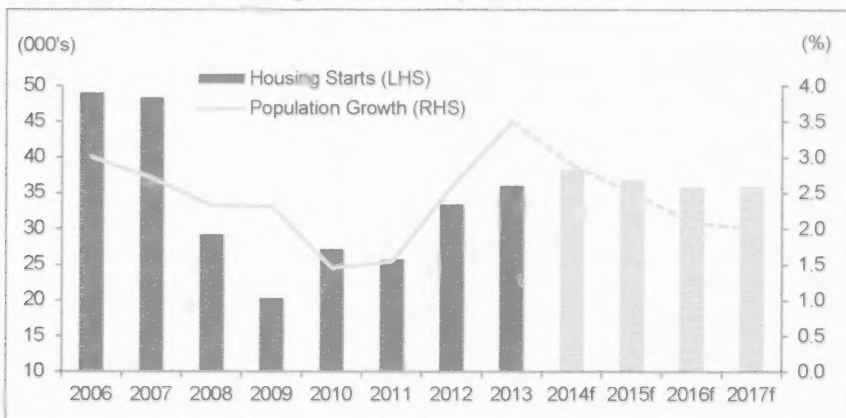
Housing is expected to remain a vibrant part of the Alberta economy, though there are risks to the outlook. As a small and commodity-driven economy, Alberta is subject to a number of global risks. A renewed slowdown in emerging markets, for example, could lower commodity prices and hurt Alberta's economic prospects. This could negatively impact in-migration and housing demand.

Chart 7: Building Permits Point to Further Strength
Residential Building Permits by Area



Source: The Canadian Real Estate Association

Chart 8: Housing Starts Remain Robust as Population Expands
Forecast of Alberta Housing Starts and Population



Source: Statistics Canada and Alberta Treasury Board and Finance Budget 2014

Housing affordability also presents a risk to Alberta. Higher wages, and low interest rates have enabled housing to remain affordable within the province. A sudden, unexpected shift in either of these factors would quickly offset housing market balance, driving up costs for consumers or suppliers, and making housing less affordable.

Alberta's robust labour market and low global inflationary pressures have kept building cost pressures fairly contained, however a shift in these factors could cause costs to accelerate. A sudden tightening of the labour market, or a pick up in global inflationary pressures could add to home building costs. An increase in construction costs would likely feed through to home-buyers in the form of higher prices.

On the upside, the housing market could also strengthen more than expected. A stronger-than-forecast expansion in Alberta could lead to more in-migration, and put further pressure on housing demand.

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